



Missouri Budget Update August 2010

Missouri Division of Budget and Planning



MISSOURI BUDGET UPDATE AUGUST 2010

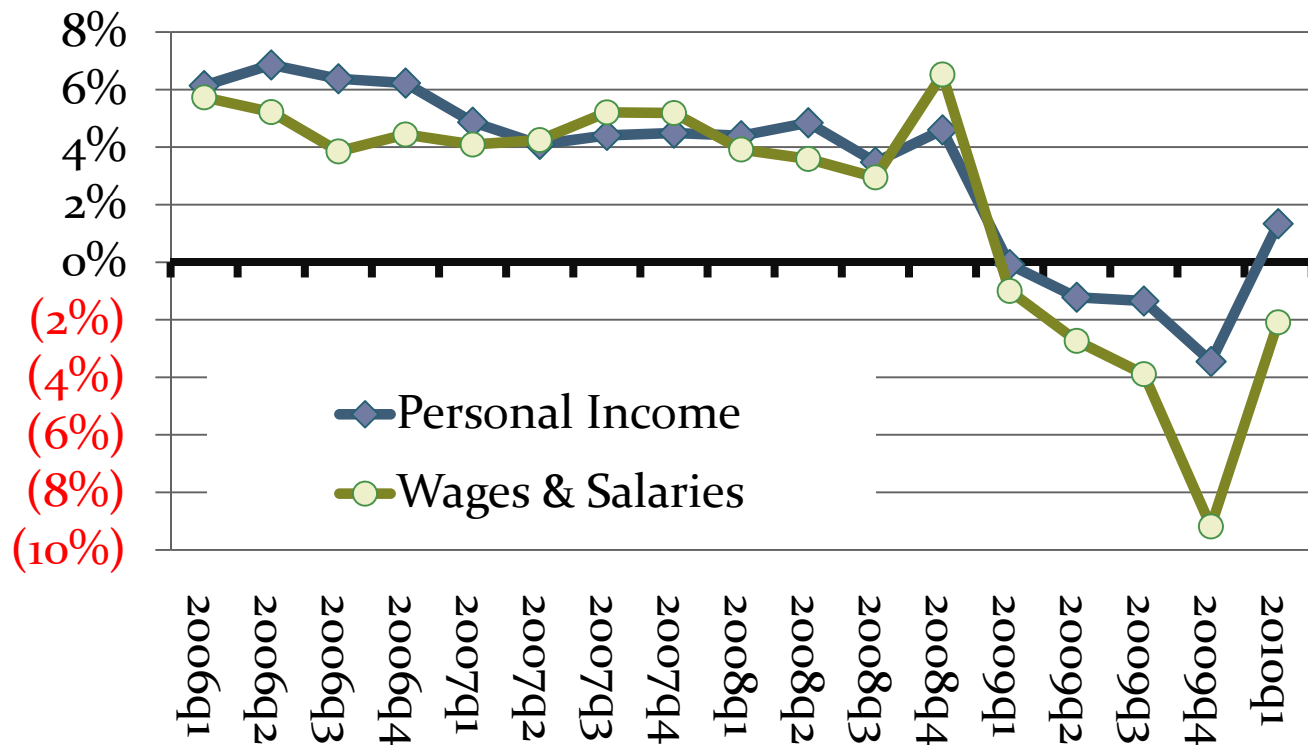
- Economic data – actual and projected.
- State revenue situation.
- State spending situation.
- What's ahead for FY 2012.



MISSOURI BUDGET UPDATE AUGUST 2010

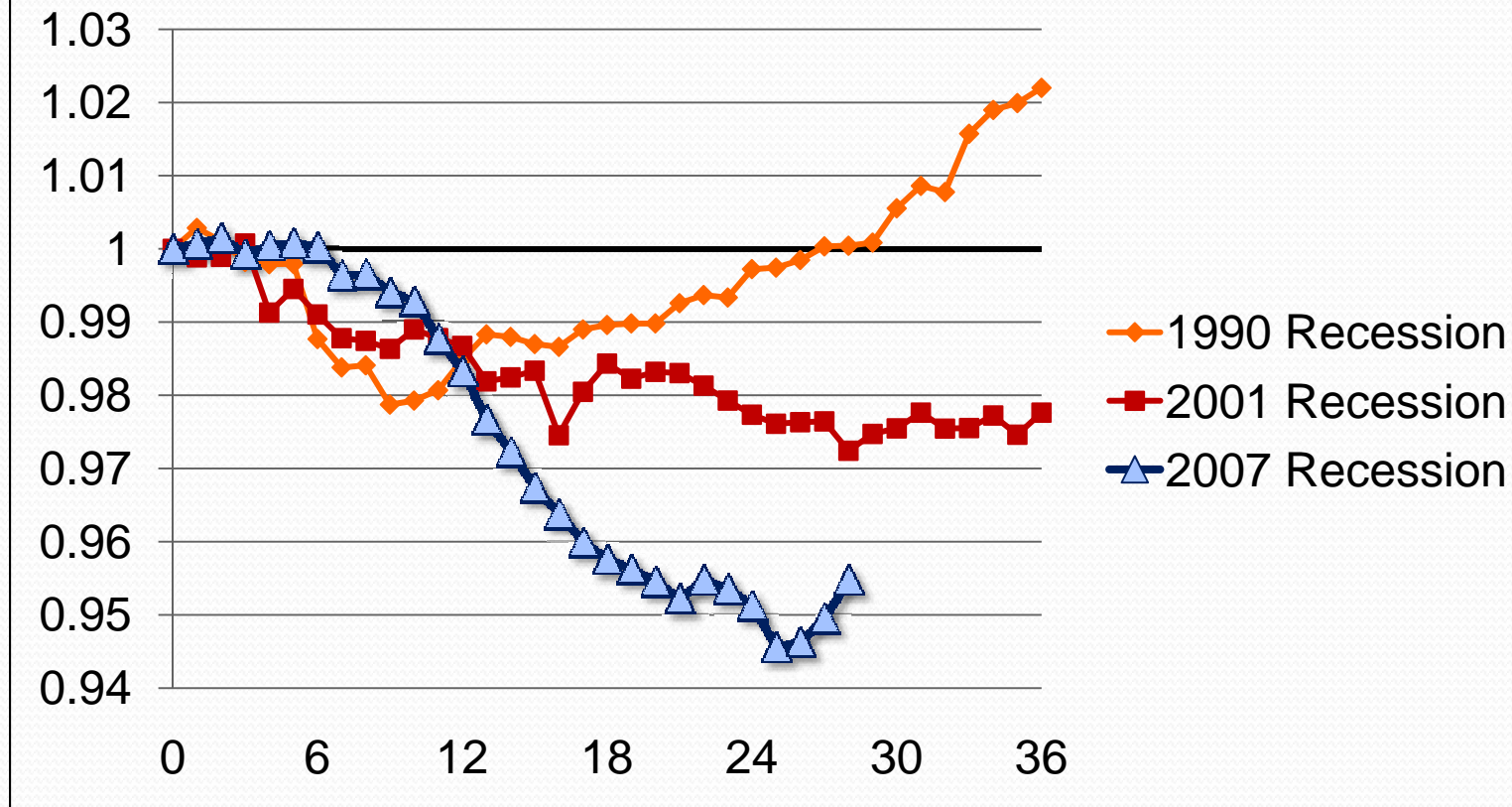
Economic Data – Actual

Growth in MO Personal Income $Q/(Q-4)$



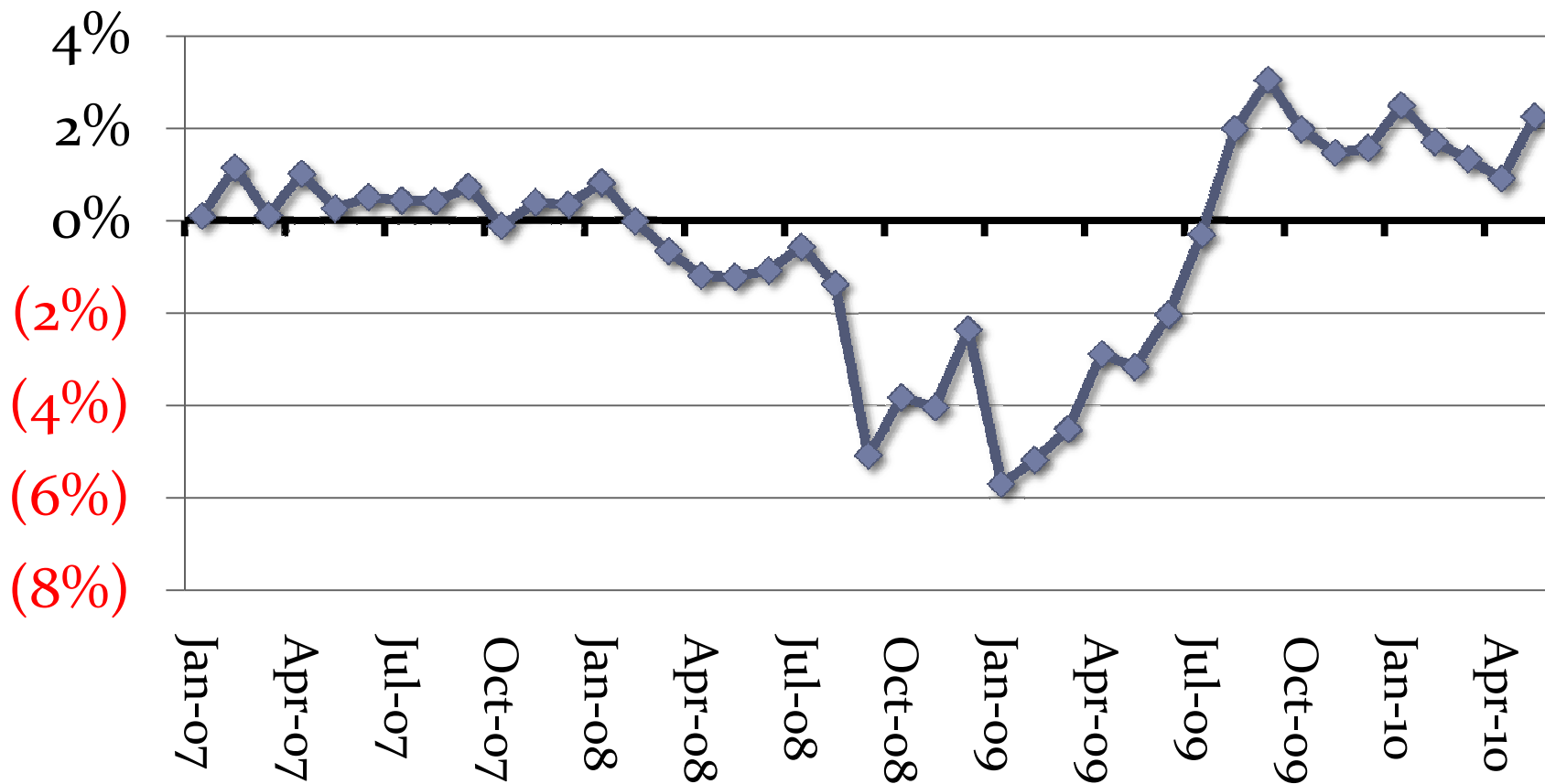
- Personal Income growth, dropped off sharply in 2009, but has started to recover.
- Salaries and wages declined every quarter of 2009. The decline has continued into 2010, although at a slower pace.

Recession Employment Indices



- MO Employment has declined much more dramatically than during the previous two recessions.
- The decline in employment showed early signs of reversal in March 2010.

Change in Total Industrial Output *Over Previous Three Months*





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Economic Data – Projected

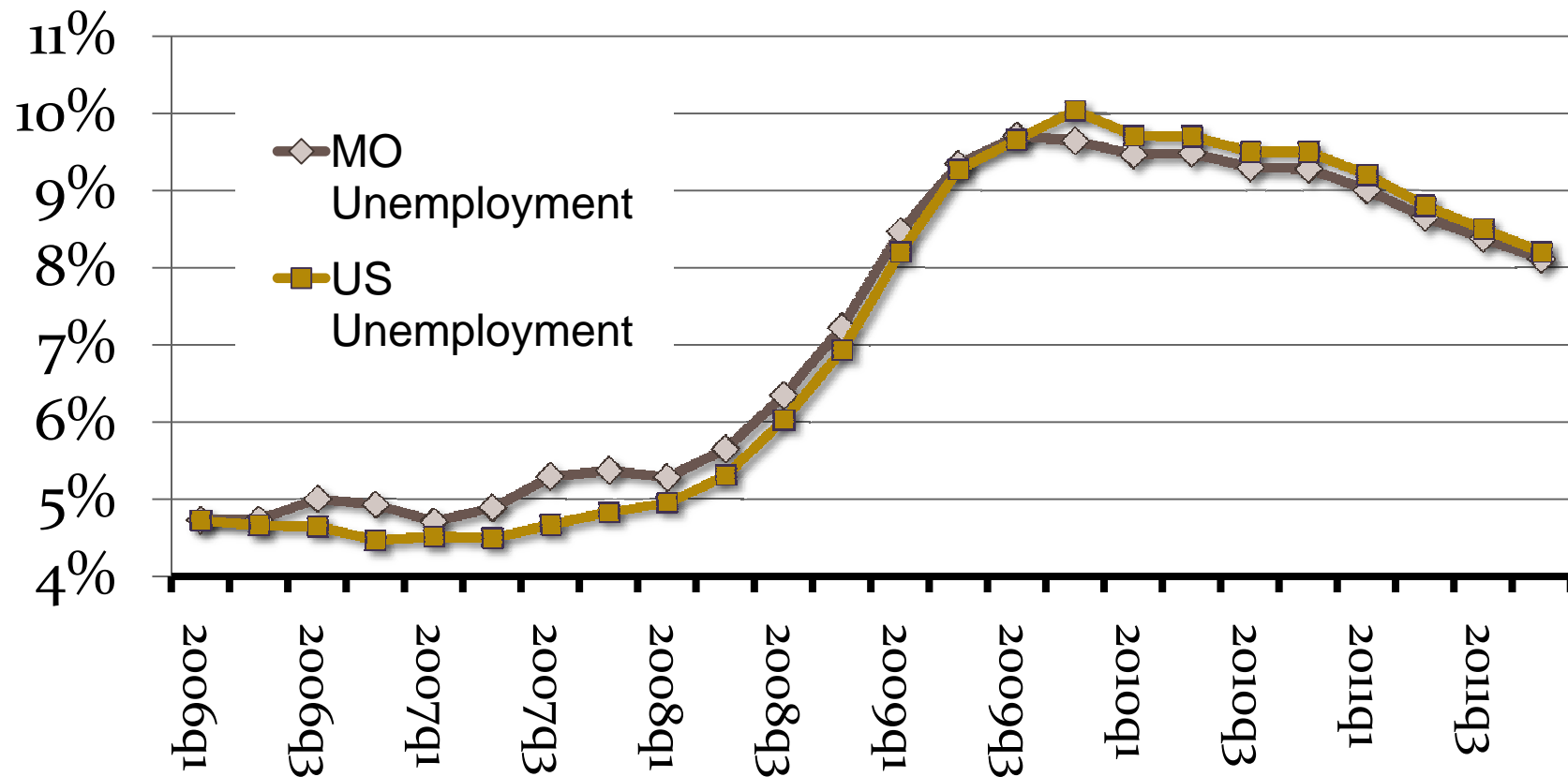


Outlook

- The recovery expected in 2010 has been delayed by:
 - impacts of the European sovereign debt crisis
 - uncertainties about the waning impacts of fiscal stimulus, especially in the housing sector.
- Nevertheless, corporate profits are up, the financial sector is improving, and interest rates remain low. Business investment is growing, and consumers are cautiously returning to the market.
- In the near-term, recovery will be hampered by changes in government spending:
 - Removal of federal stimulus
 - Sharp contraction of state and local expenditures
- Above-average growth is expected in 2011 as the recovery gains firmer footing, but risks are abundant. Consumer demand must improve, but this will be a tough hurdle until unemployment declines and housing prices improve.

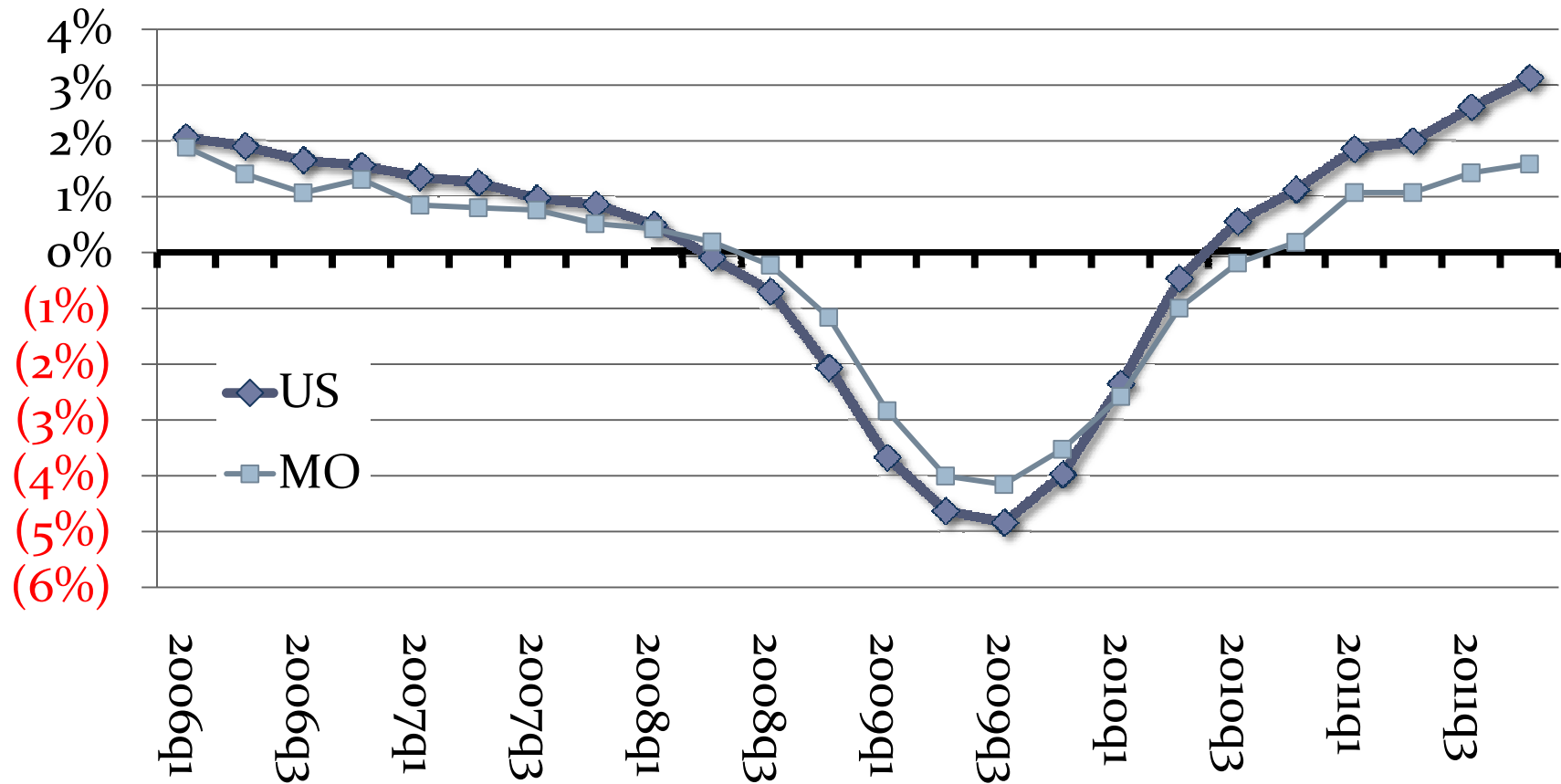
US and MO Unemployment Rates

Seasonally Adjusted Data



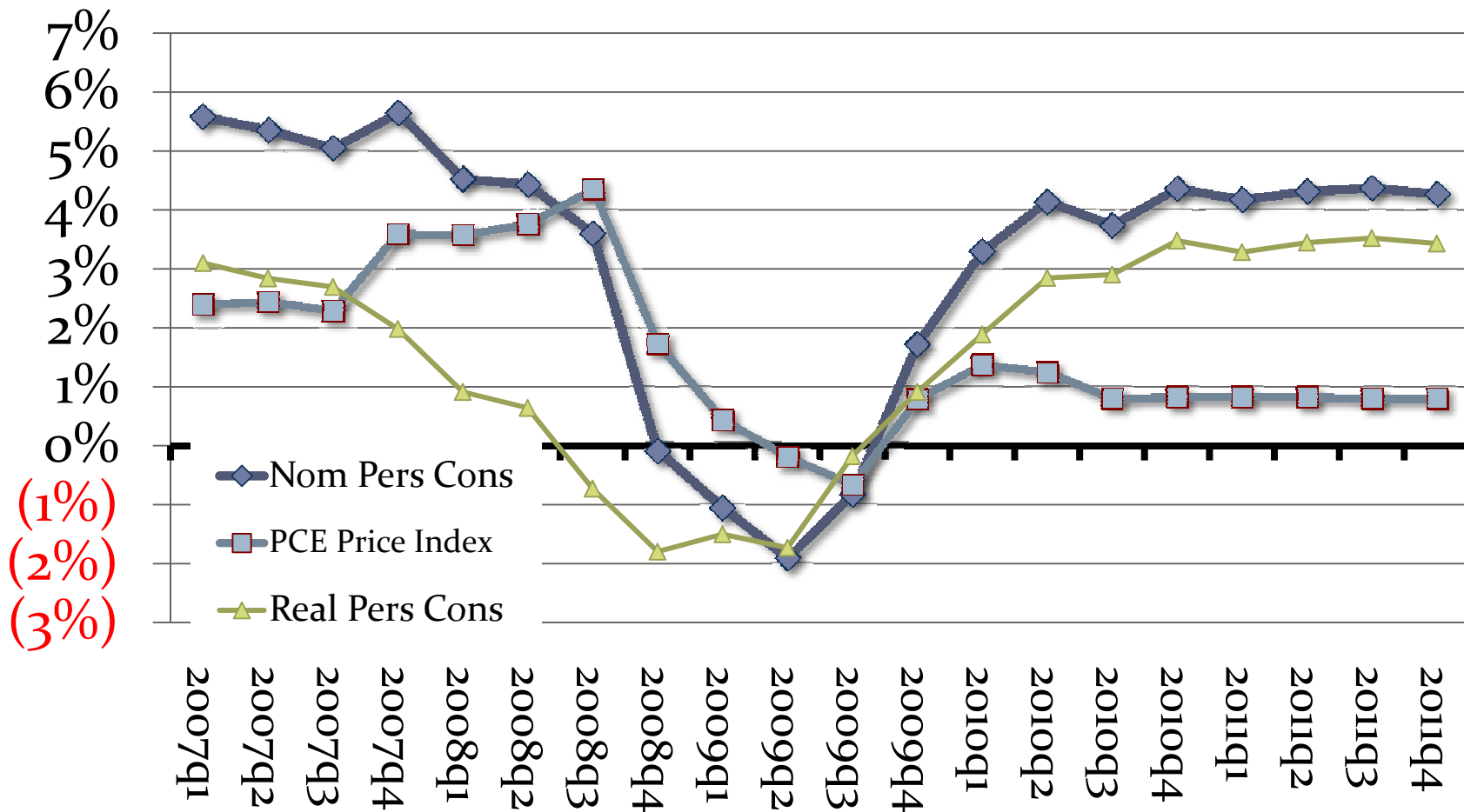
Change in Current Employment

Q/(Q-4) Growth



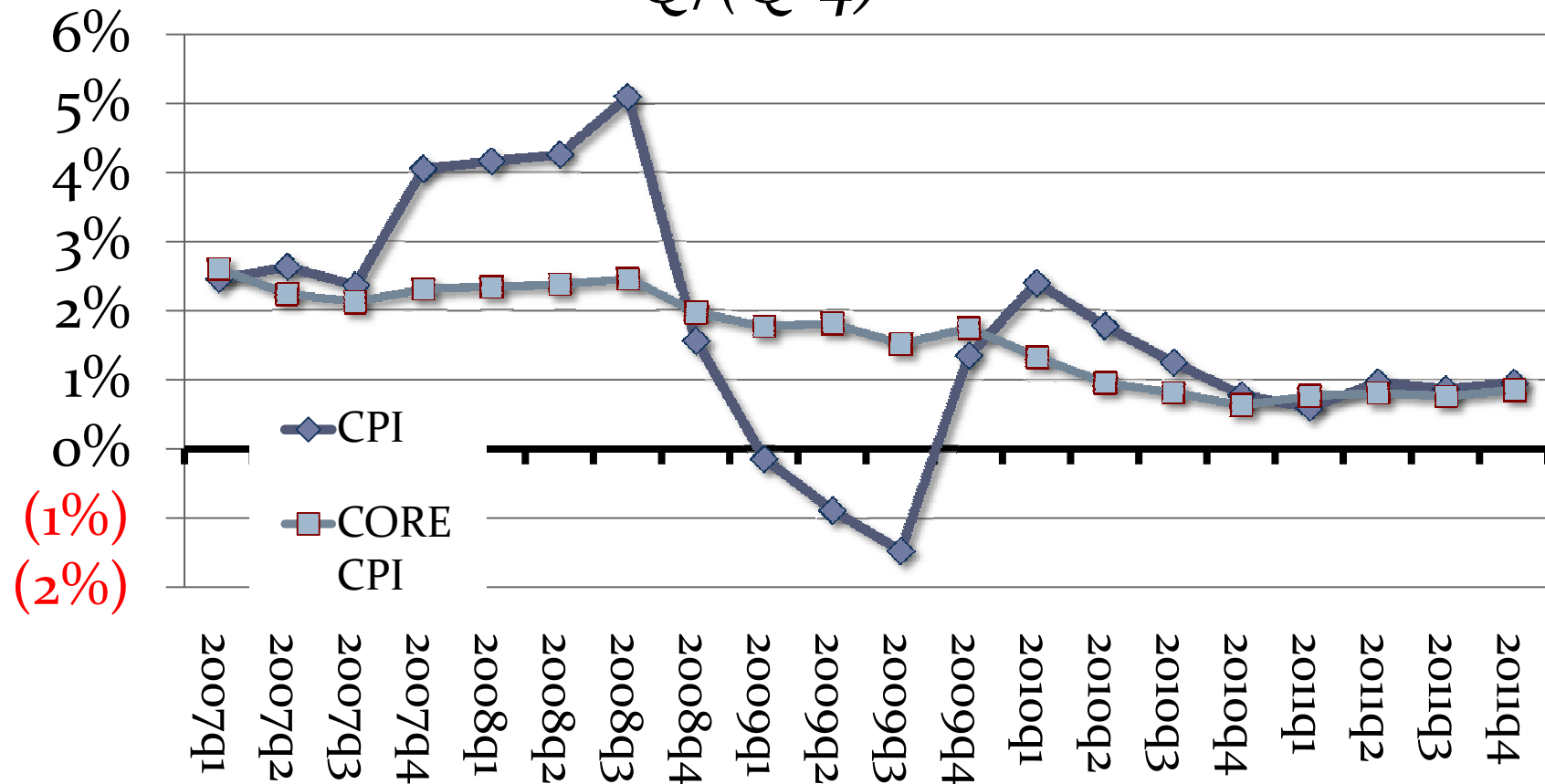
Personal Consumption

$Q/(Q-4)$



Inflation (CPI)

$Q/(Q-4)$



- The lack of consumption or wage growth will keep inflation subdued.



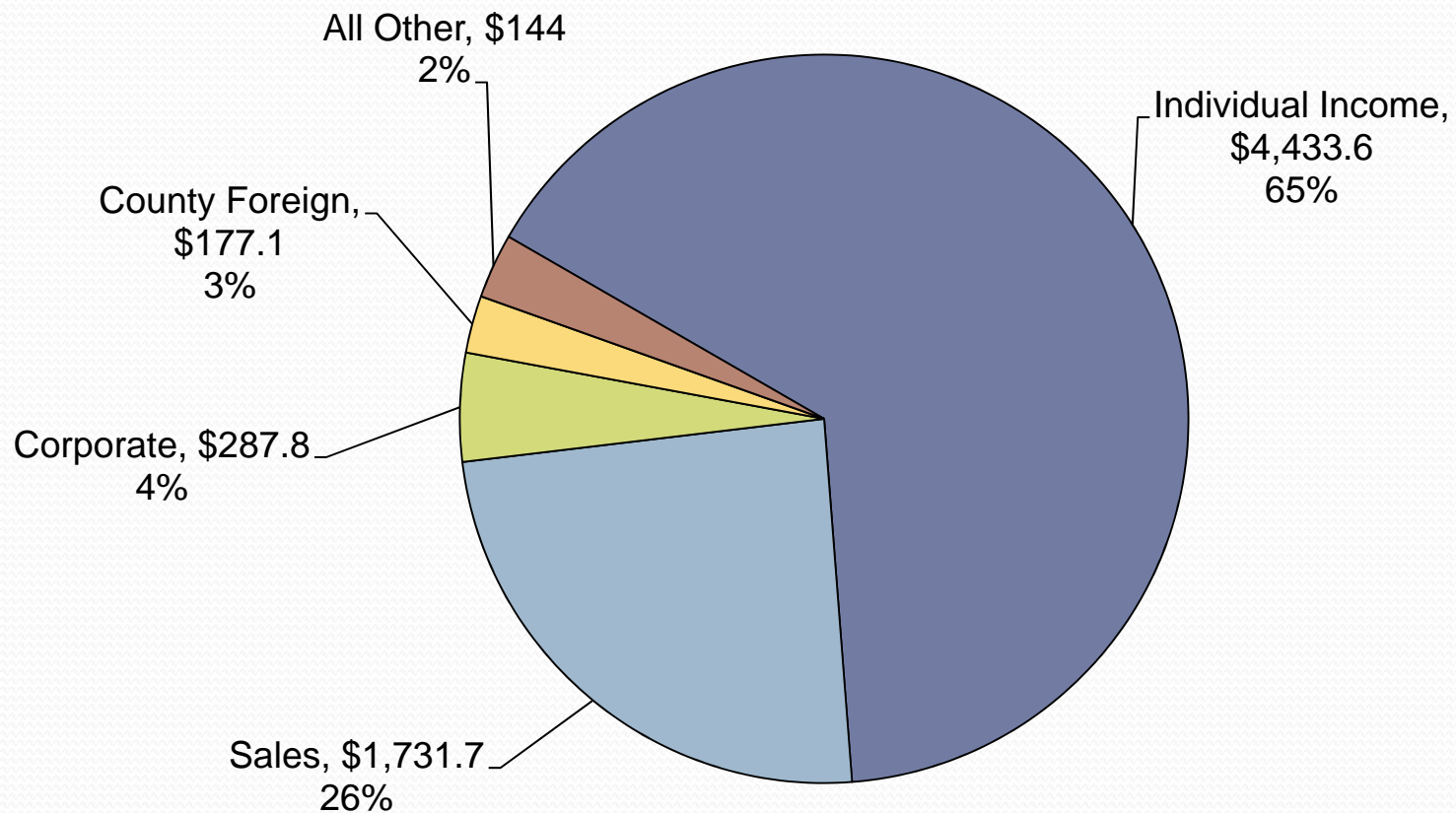
MISSOURI BUDGET UPDATE AUGUST 2010

State Revenue Situation

FY 2010 NET GENERAL REVENUE COLLECTIONS

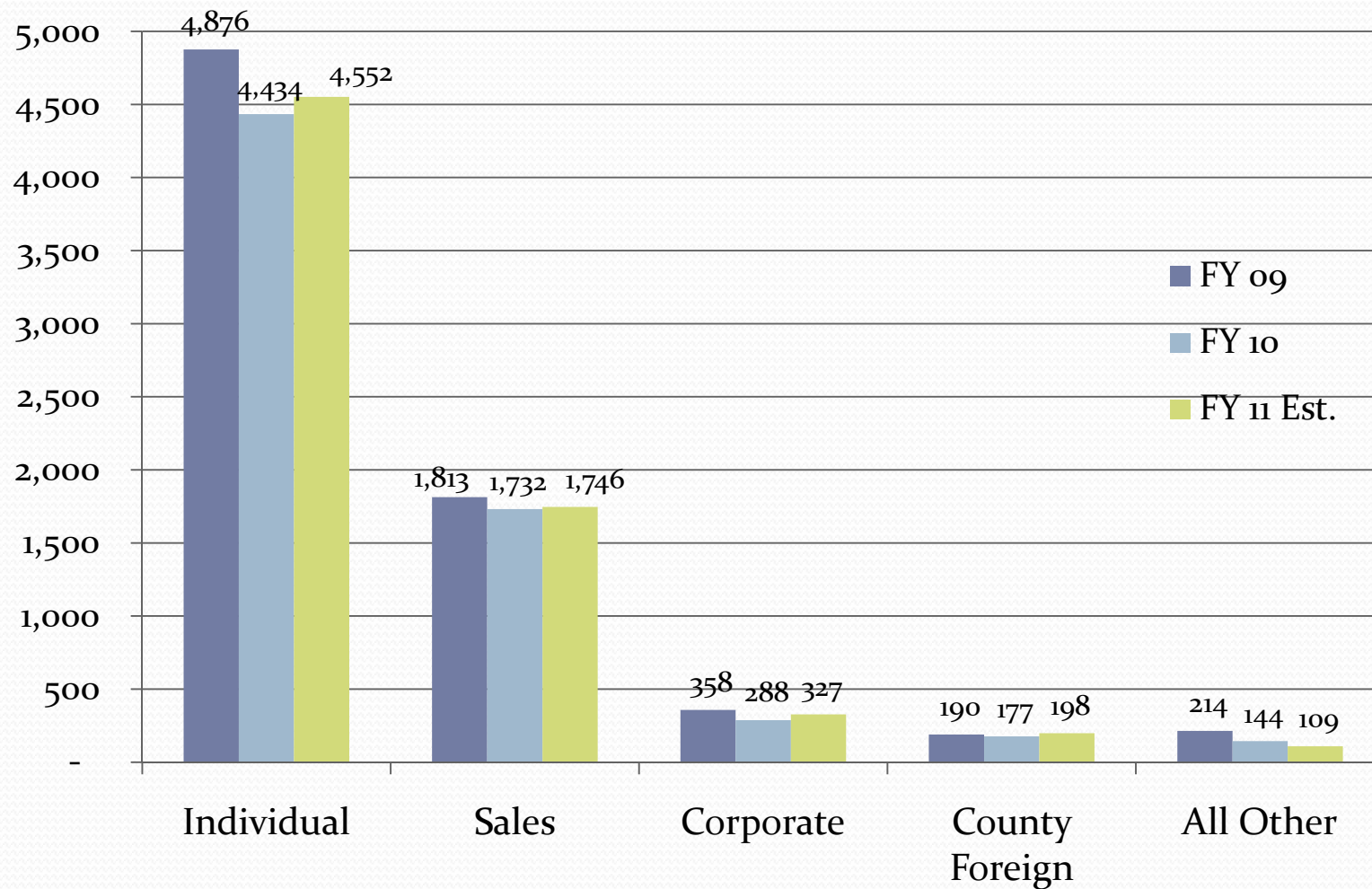
(\$ in millions)

Total \$6,774.3

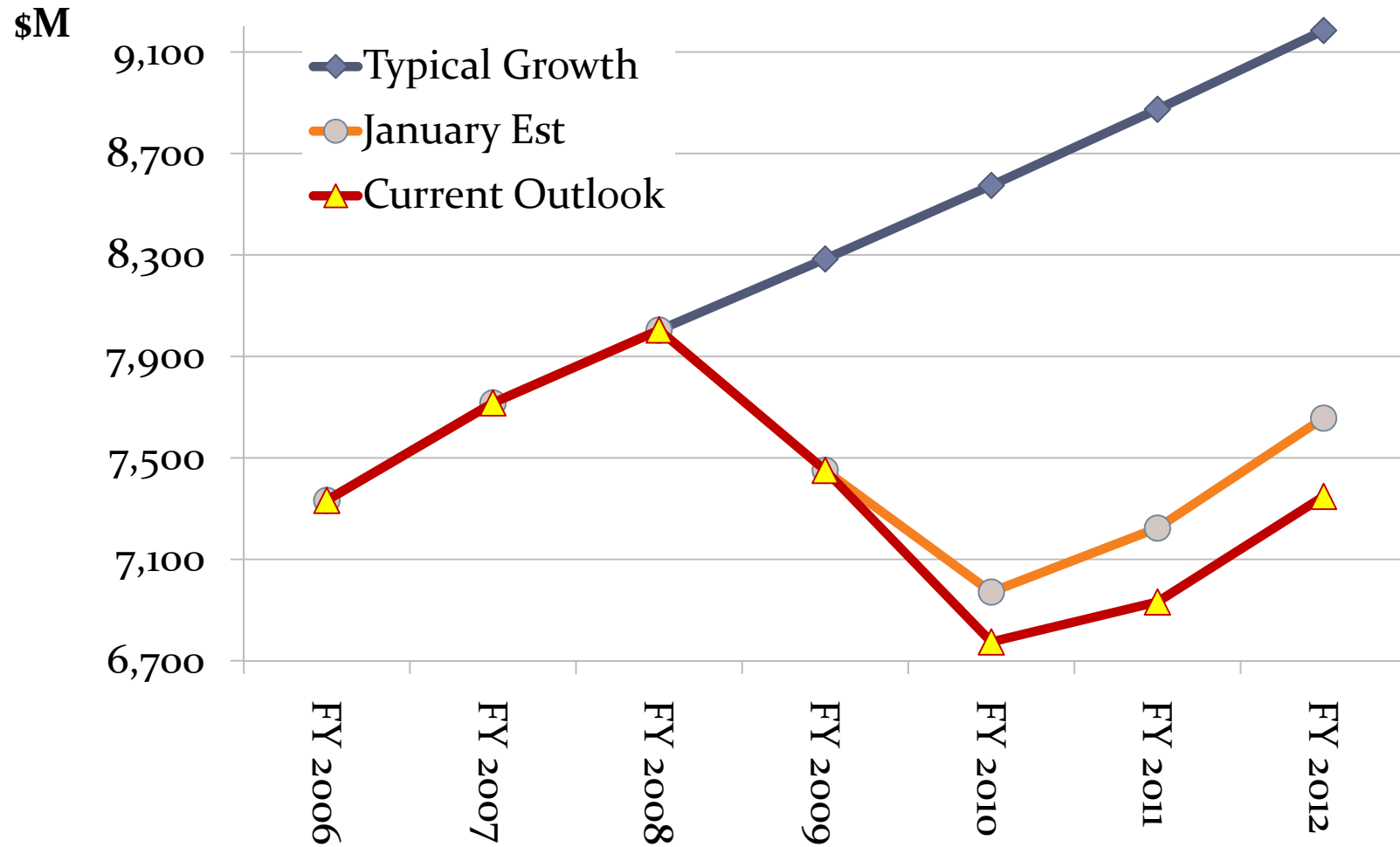


NET GENERAL REVENUE COLLECTIONS

(\$s in millions)



MO General Revenue Collections





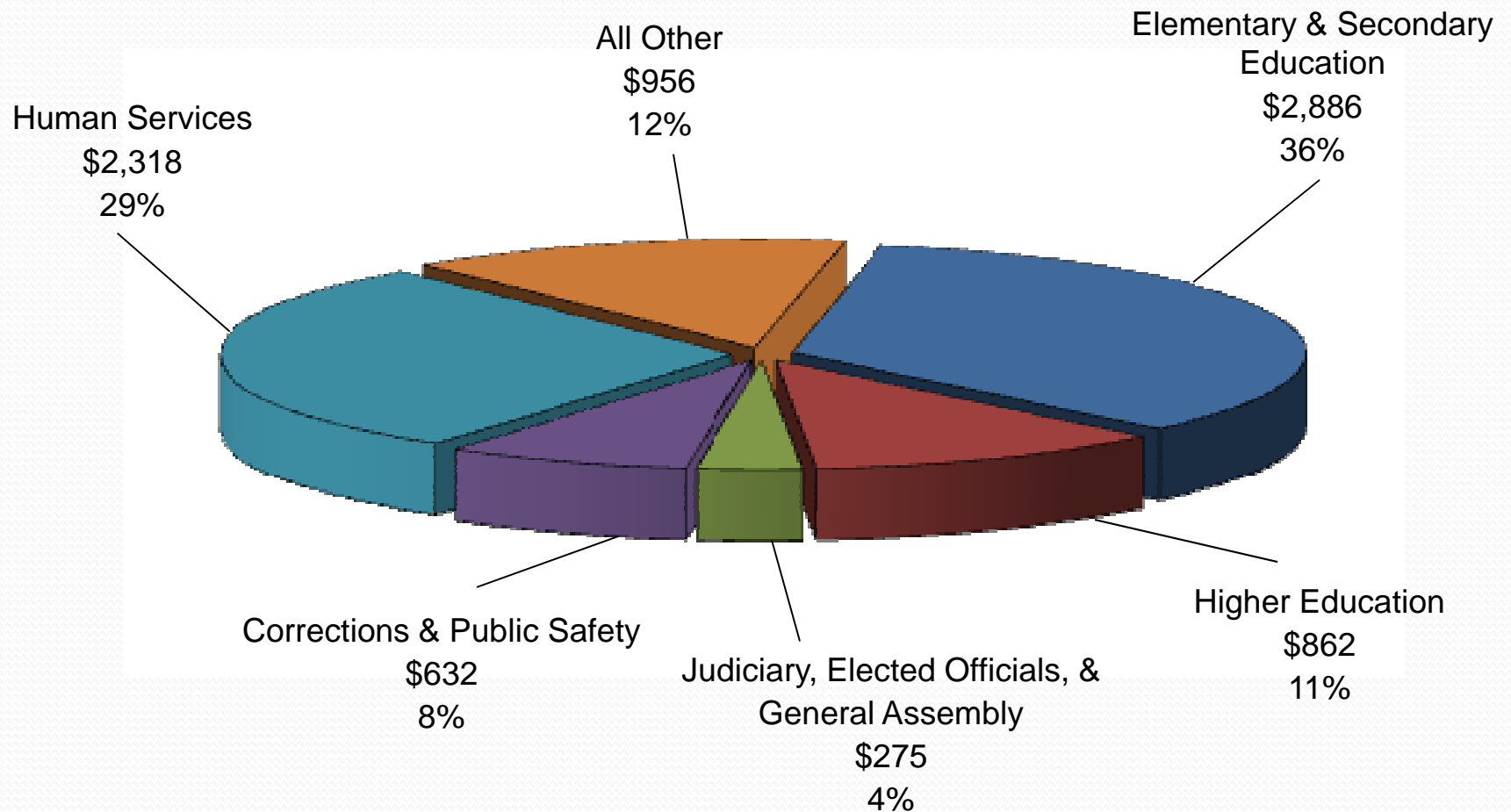
MISSOURI BUDGET UPDATE AUGUST 2010

State Spending Situation

FY 2011 General Revenue Est. Spending

Includes Federal Stabilization Funds (\$ in millions)

Total \$7,929



Budget Balancing Actions

(millions of \$s)

FY 2009	\$272
January 2009 Restrictions	\$177
Reduced Supplemental Needs	\$85
Spring 2009	\$10
FY 2010	\$910
Line Item Vetoes	\$105
July 2009 Restrictions	\$300
October 2009 Restrictions	\$204
January 2010 Restrictions	\$55
February 2010 Restrictions	\$74
March 2010 Restrictions	\$126
April 2010 Restrictions	\$46
FY 2011	\$912
Core Reductions in Introduced Budget	\$300
Additional Legislative Reductions	\$311
June 2010 Restrictions	\$301

FEDERAL STABILIZATION FUNDS

(\$s in millions)

	FY 09	FY 10	FY 11	FY 12	Total
<u>Resources</u>					
Enhanced FMAP	\$432.1	\$718.5	\$546.6*	\$0.0	\$1,697.2
Education	\$0.0	\$753.2	\$0.0**	\$0.0	\$753.2
General Purpose	\$0.0	\$167.7	\$0.0	\$0.0	\$167.7
Total	\$432.1	\$1,639.4	\$546.6	\$0.0	\$2,618.1
<u>Estimated Expenditures</u>					
Enhanced FMAP	\$255.8	\$611.8	\$620.3	\$209.3*	\$1,697.2
Education	\$0.0	\$530.0	\$223.2	\$0.0**	\$753.2
General Purpose	\$0.0	\$88.5	\$79.2	\$0.0	\$167.7
Total	\$255.8	\$1,230.3	\$922.7	\$209.3	\$2,618.1

* Includes an estimated \$209.3M extension of enhanced FMAP recently approved by Congress.

** Does not include \$189 M approved by Congress that is earmarked for K-12, reviewing requirements.



MISSOURI BUDGET UPDATE AUGUST 2010

What's ahead for FY 2012



FY 2012 BUDGET PRELIMINARY ASSESSMENT

- \$420 million increase in revenue; 6% above current estimate for FY2011.
 - This is starting to look optimistic.
- (\$700) million decrease in federal stabilization funds.
- = (\$280) million net decline in available resources, 5.3% decline.
- \$170 million increase in spending, driven by federal mandates (Medicaid, Special Ed, etc)
- An estimated budget gap of between \$400 to \$500 million.
 - Does not factor in addn. \$189M in education \$s, must be spent on K-12.
- Assumes all reductions made in FY 2011 continue.



FY 2012 BUDGET HOW DO WE MAKE IT WORK?

- More focused use of tax credits (legislature did not approve in 2010).
 - Doing what we can administratively to ensure return on investment.
 - Governor has appointed a commission to make recommendations.
- Improved collections of existing taxes (legislature did not approve in 2010).
 - Working on options.
- Reduced spending.
 - Most of the revenue is spent on education, health care and public safety.



FY 2012 BUDGET

WHERE CAN WE REDUCE SPENDING?

- Federal mandates take much of the spending off the table for reductions.
- Limited ability to reduce funding for Corrections.
- What's left?
 - State employees – already reduced by 2,500.
No pay raise since FY 2009.
Addressing health care and retirement costs.
 - Non-mandatory social services (already reduced & some eliminated).
 - Higher education, already reduced 5%.



FY 2012 BUDGET

WHAT MAY IT MEAN FOR HIGHER EDUCATION?

- Reduction already made (5%) continues.
- Likely not able to restore scholarship funding.
- Additional reductions will be necessary.
- How do we help higher education weather more reductions?



MISSOURI BUDGET UPDATE

AUGUST 2010

Summary

- Economy – there are some positive signs, but also a lot of risks.
- State revenue – we are anticipating growth in the current and upcoming fiscal years, but employment is the key.
- State spending – much of what we spend is driven by mandates and much of the rest has already seen significant reductions.
- What's ahead for FY 2012 – efforts to ensure tax credit return on investment and improved collections of existing taxes, but spending will need to be further reduced.